

Office of the Washington State Treasurer

2012 Report to the Washington State Legislature on Actions Taken by the Public Deposit Protection Commission

An update on recent events, responses and issues related to modernizing
and improving the protection of public deposits in Washington State



December 2012

Executive Summary:

No financial institutions that serve government depositors were closed in 2012, a strong indication that Washington state is emerging from the financial and economic downturn that contributed to the closure of 19 of Washington's public depositary banks in the three years since 2009.

Though it may take several more years for the economy to more completely deleverage and for housing and commercial real estate markets to fully heal, the flood of bank closures that crested at 12 in 2010 appears to have subsided.

Reforms enacted by the 2009 Legislature, signed into law by the Governor, and overseen by the Public Deposit Protection Commission, and implemented by the State Treasurer were highly effective at protecting all public deposits in Washington state. These safeguards continue to protect all public money deposited at 71 banks and five credit unions that serve state and local government in Washington.

As of 10/31/2012, these institutions held more than \$5 billion in public deposits. With 100 percent collateral standing behind all uninsured public deposits, these public funds remain safe and secure.

Washington law requires the State Treasurer to report annually to the Legislature on actions taken by the Public Deposit Protection Commission (PDPC) and the Treasurer regarding public deposit protection. Reports issued in [2009](#), [2010](#) and [2011](#) provide an accounting of the issues and actions taken by the PDPC and the Treasurer to protect public deposits. This 2012 report is an update on events and actions taken since December 1, 2011 when the last report was published.

Summary of Bank Closures and Mergers:

No Public Depositary Banks in Washington were closed by state and federal regulators in 2012. In April, Mountain West Bank (Idaho), which has branches in Ione, Newport, and Spokane Valley, merged into Glacier Bank (Montana). Washington Glacier Bank continued as PDPC participant.

Credit Unions

Effective July 1, 2011, the Legislature allowed state-chartered credit unions to take public deposits. Then, in 2012 the Legislature also allowed qualifying federally-chartered credit unions to accept public deposits and increased the deposit limits for all PDPC credit unions from \$100,000 to \$250,000 to match maximum deposit insurance limits provided by the National Credit Union Administration (NCUA).

To date, nine credit unions have been approved to accept public deposits. As of 10/31/2012 five credit unions hold \$432,973 in public deposits, all of which are NCUA insured.

Insured Deposits and FDIC Issues

In response to the global financial crisis in 2008, the Federal Deposit Insurance Corporation (FDIC) enacted the Transaction Account Guarantee (TAG) program as an important tool to resuscitate financial markets and help restore confidence in the banking system.

Since then, TAG has provided a way for insured institutions to keep taking public deposits for local governments by providing an unlimited guarantee of such funds should the institution fail.

In 2009, more than half of the public deposits in Washington were insured by the FDIC through TAG and therefore did not require collateral at a time when this source of liquidity was critical to our banking system.

TAG was originally slated to expire December 31, 2009, which would have forced banks struggling with the collapse of the real estate market to dramatically increase their collateral to secure public deposits at one hundred

percent. However, at the urging of a coalition of businesses, community banks and state treasurers the FDIC Board of Directors extended TAG – first on August 27, 2009 and again on April 13, 2010.

Then in July 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which further extended TAG by an additional two years to cover all deposits in noninterest-bearing transaction accounts.

Unless extended again by Congress, TAG will expire December 31, 2012 at which time PDPC banks will need to provide 100 percent collateral for all uninsured public deposits.

While the three largest public depository banks in Washington now hold 85 percent of TAG-protected deposits, several small banks still use the program to insure a significant proportion of their public deposits from local governments who need liquidity for payroll and bond payments.

Many of these rural government entities have limited options for banking and find that banking with a community institution is more convenient and practical than working with a larger bank.

Discontinuing TAG may discourage some banks from accepting local government deposits, and for this reason the Office of the State Treasurer [has again asked Congress to extend TAG, at least until it can be phased out in an orderly fashion.](#)

Meanwhile, OST in partnership with the Washington Department of Financial Institutions and the Seattle Federal Home Loan Bank is exploring a new, low-cost letter of credit from the Federal Home Loan Bank to collateralize public deposits. This option is designed to help preserve local government access to community banking services.

Background

On January 16, 2009, Bank of Clark County failed and more than \$15 million was lost due to lack of insurance or sufficient collateral. This loss triggered a first-ever assessment on other public depositories to recover the public funds. The 40-year-old Public Deposit Protection Act served its purpose and provided the necessary guidelines to recover the public tax-dollars lost in the closure but not without causing grave concern among private financial institutions participating in the collateral pool standing behind all public deposits. This unfortunate event drove home the need for

reforms that gave the Public Deposit Protection Commission and the State Treasurer the ability to act quickly to impose collateral requirements on financial institutions holding public deposits. Inaction would have jeopardized \$8 billion in public deposits and the state's financial institutions.

Swift and prudent action by the Legislature, Governor, the State Treasurer and regulators eliminated the systemic risk to public deposits and the financial system. By June 30, 2009, all public deposits that previously could have been lost were either fully insured or fully collateralized. By working together, we created better protections for public deposits while also reducing risks and liabilities for financial institutions.

Looking Ahead:

The Office of the State Treasurer continues to work with state and federal regulators to keep abreast of changing conditions in public depositaries as the national and state economies continue to regain their footing.

PDPC Resolutions:

There were no PDPC Resolutions in 2012.